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SENSITIVE

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SUBJECT: ECONOMIC DEVELOPMENT STRATEGY SHORT ON SPECIFICS

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SENSITIVE BUT UNCLASSIFIED

¶1. (SBU) Summary and Comment: Croatian PM Ivo Sanader unveiled his government's economic and social development plan on May 15. The strategy, called the "Strategic Framework for Development 2006-2013," breaks little new ground and appears directed mostly at reassuring the European Union that the GOC has a plan for spending its money over the next several years. Long on generalities, such as encouraging entrepreneurship, reducing unemployment and increasing GDP growth, the strategy offers few specifics. The notable exception is privatization, where the authors optimistically call for the privatization of the state-owned insurance company, metal works and a shipyard by the end of 2006. End Summary.

The Man with a Plan

¶2. (SBU) The "Strategic Framework for Development 2006-2013" is PM Sanader's second major "strategy" in as many months, following on the heels of the GOC's anti-corruption plan. Presented on May 15, the plan's stated aim is to provide a vision for Croatia's development through a competitive market economy, growing from the current level of 54 percent of the EU-25 per capita GDP to 75 percent by ¶2013. The seventy-five page strategy lays out 10 key pre-cursors of development: human capital and education, science and information technology, social cohesion, energy and transport, environmental and regional development, macroeconomic stability, capital markets, the business climate, privatization and restructuring, and the role of the state.

Lofty, but Vague Goals

¶3. (SBU) The strategy is a portrait of a desired end-state rather than a roadmap for economic reform and, as such, offers few details as to how, in 15-20 years, "Croatia might become one of the 10 richest countries in Europe." It highlights many laudable goals, such as reducing long-term unemployment, improving education, investing in information technology and renewable energy. At the same time, the plan calls for maintaining macroeconomic stability, a stable exchange rate, low inflation, low deficits and reducing the country's foreign debt from the current 83 percent of GDP to 60 percent. The plan is rife with goals that seem difficult to

reconcile with one another and statements that even border on wistful, such as the authors' warning that Croatia must "retain that which some developed countries lost on their road to riches - its quality of life and the quality of its cultural and natural heritage."

Privatization Highlighted

¶4. (SBU) In surprising contrast to the lengthy generalities in the plan is a very specific time-line for the privatization and restructuring of some of the remaining state-owned enterprises. The strategy singles out state-owned (and profitable) insurance company Croatia Osiguranje for privatization by the end of 2006 - specifically noting that it could combine with the state-owned Postanska Banka. (Note: This merger would fulfill the wish of some in Zagreb to create a national champion financial institution to balance 93 percent foreign control of the banking sector.) Also slated for privatization by year's end are the state's two heavily-indebted steel mills and the Uljanik shipyard in Pula. The plan calls for all shipyards to be restructured by 2010, as well as the complete restructuring of Croatian Railroads to reduce its expense/income ratio from the current 220 percent to at least 150 percent.

¶5. (SBU) Several embassy contacts dismissed the strategy as nothing more than a sop to the EU, which has increased pressure on the GOC to present a plan to close the privatization portfolio before it will open negotiations on the Competition and Industrial Policy chapters of the EU Acquis. The GOC does not have a lot of credibility on the privatization question, as it has promised action on most of these

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concerns for each of the past several years. Nevertheless, many of our contacts tell us that, because of the imperative of EU negotiations, the GOC can no longer duck this issue, even if the development strategy overall offers little else.

¶6. (SBU) In the final analysis, Sanader's new strategy simply reiterates what nearly everyone in Croatia's business community has known for a long time. Similar to the so-called "fifty-five recommendations" on making Croatia more competitive that the Croatian Competitiveness Council gave the government in 2004, we can only hope that the strategy has a longer shelf life and will be invoked when the time comes to make the painful decisions necessary to bring its vision to fruition. However, with 2007 an election year in Croatia, we're not holding our breath.

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